

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of)

Federal-State Joint Board on)
Universal Service)

CC Docket No. 96-45 & 97-160
DA 98-715

COMMENTS
OF THE IOWA UTILITIES BOARD

The Iowa Utilities Board (IUB) submits the following comments addressing the Federal Communications Commission (FCC) Common Carrier Bureau's April 15, 1998, Public Notice (DA 98-715) requesting comment on proposals to revise the methodology for determining universal service support.

Summary

The FCC, in its May 8, 1997, Universal Service Fund (USF) order stated that the cost and distribution of support would be calculated on a yet to be determined forward looking cost model and the federal fund would provide 25% of the amount of necessary funding. States, while not mandated to have a state fund, would theoretically be responsible for the remaining 75% support. The FCC also stated that while it had the authority to assess intrastate revenues for a federal fund, at this time it would assess only interstate revenues.

The Iowa Utilities Board commends the FCC's willingness to reconsider decisions made in its earlier order and to consider alternative methods of providing

sufficient universal service funding.

The FCC should adopt a methodology for determining USF support that:

- Is sufficient,
- Is based on a forward-looking cost model, and
- Uses an exchange or smaller geographic area to target support.

Universal service should be funded in a manner that:

- Is efficient, and
- Does not violate a state's jurisdiction.

The IUB encourages the use of the Interstate High Cost Affordability Plan (IHCAP) or the Telephone Number Proposal. These two proposals best reflect the characteristics that the IUB feels are important in supporting universal service funding.

Sufficiency of the Universal Service Fund

Funding of universal service should be sufficient. Federal funding for only 25% of the necessary universal service support is in discord with universal service and the '96 Act. Universal service is an assurance that telephone rates will be affordable, even in high-cost areas. This goal cannot be achieved unless there is a federal fund that transfers funds from low-cost states to high-cost states.

If the federal fund is insufficient, consumers in high cost areas will see their basic local service rates rise to an unaffordable level or states will be forced to initiate state universal service programs with large surcharges. Either option will result in loss of telephone customers and defeat the purpose of the '96 Act and the federal universal service fund. The NARUC Ad Hoc Working Group estimates that North Dakota, South Dakota, Montana, Nebraska and Wyoming would have to

provide state funding of over \$10 per line per month under the 25/75 split.¹

Calculation of Support

In Calculating the amount of high-cost fund support, the cost of providing local telecommunications service should be based on a forward-looking or current cost model and not on embedded costs. The FCC was correct in adopting the Joint Board's "Criteria for Forward-Looking Economic Cost Determinations." Criterion Number (3) states:

Only long-run forward-looking economic cost may be included. The long-run period used must be a period long enough that all costs may be treated as variable and avoidable. The costs must not be the embedded cost of the facilities, functions, or elements. The study or model, however, must be based upon an examination of the current cost of purchasing facilities and equipment, such as switches and digital loop carriers (rather than list prices).²

Many states have already set prices for UNEs based on some form of current or forward-looking costing methodology. A universal service cost model based on the current cost of purchasing facilities allows both incumbents and competitors to be on a level playing field and would encourage facilities-based competition, while the use of embedded costs would discourage facilities based competition.³

Forward-looking costs would also encourage investment in existing networks while embedded costs would not. States with low embedded costs, but high

¹ *High Cost Support: An Alternative Distribution Proposal*. Submitted to the FCC on April 27, 1998.

² Federal-State Joint Board on Universal Service, Docket No. CC-96-45, *Report and Order* (May 8, 1997) at para. 250(3).

³ Federal-State Joint Board on Universal Service, Docket No. CC-96-45, *Report and Order* (May 8, 1997) at para. 225.

forward-looking costs may have a large amount of old depreciated plant. These are exactly the areas where companies need to be encouraged to upgrade existing facilities.

Size of the Geographic Area for Support Calculations

The geographic area for calculating universal service funding, in the options noticed by the FCC, are a statewide average, exchange size, density zone, or a grid.

The larger the geographic area used for calculation of support the more the high cost areas and low cost areas are averaged, thus understating the amount of support needed in high cost areas. A statewide average, the largest geographic area proposed, should not be used for determining universal service funding. Averaged retail rates can not be maintained in a competitive environment. As competitors enter the market, prices for local service will approach cost. In order to remain competitive, incumbent local service providers will have to reduce their rates in urban areas eliminating average prices as a source of high cost area support. Thus, it is important that the high-cost fund targets high cost areas and not base support on a statewide average.

The FCC and the Joint Board recognized the importance of deaveraging the support calculations in the criteria for a federal or state cost study or model.⁴ Criterion number ten acknowledges the need to calculate support on a wirecenter serving area level or smaller in order to efficiently target universal service support.

⁴ Federal-State Joint Board on Universal Service, Docket No. CC-96-45, *Report*

How the Money is Collected

Assessments for the universal service fund should be on a competitively neutral basis and should not violate a state's jurisdiction. There appear to be two methods for funding the USF: (1) assessments to telecommunications companies or (2) assessments to the end user. A company assessed for universal service funding will either build the assessment into its rates or impose an end-user charge.

Currently the FCC assesses telecommunication carriers based on the carriers' revenues from end users and has allowed the carriers flexibility in recovering their contributions from customers. It is not surprising that with the current fund most companies have opted to apply an end-user surcharge rather than build the cost into the rates. The amount and the application of the surcharge have varied among the companies. The result has been customer confusion and suspicion that companies are receiving more than is required for universal service support.

An assessment on telephone numbers is a method of collecting money for USF that is efficient, will not affect pricing decisions, and will not violate a state's jurisdiction. It would also reduce the confusion concerning which companies are assessed, what revenues are assessed, and various companies assessing their customers different amounts. In this scenario all customers would be treated equally regardless of the serving company or the amount they spend on telecommunications services.

and Order (May 8, 1997) at para. 250(10).

Preferred Method of Funding

Taking into consideration the characteristics mentioned above, the Interstate High Cost Affordability Plan (IHCAP) and the Telephone Number Proposal best reflect the characteristics the IUB believes is important in a universal service fund. Both proposals utilize a cost model based on current cost and do not utilize statewide averaging.

The Telephone Number Proposal also provides for simplicity in the collection of funds and spreads the responsibility of the fund over a large customer base. Since it provides for 100% of the necessary funding on a telephone number basis, large state universal service funds would not be necessary and a state's jurisdiction would not be violated. This option would also limit customer confusion that may result from various communications carriers assessing their customers diverse amounts for universal service.

The IHCAP targets and provides sufficient federal support to the highest cost areas without using statewide averages. Providing 100% federal support to areas that are very high cost would help to minimize harm done to high-cost states that would require a very large state fund under the 25/75 split. In the event that the FCC adopts the IHCAP, the commission should still consider collecting funds on the basis of telephone numbers.

Conclusion

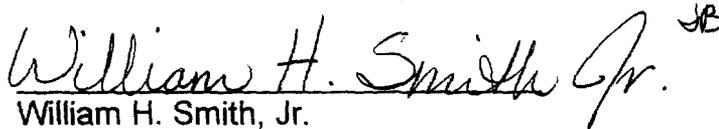
The IUB recommends the use of the IHCAP or the Telephone Number Proposal. Both proposals are based on a cost model that utilizes current cost rather

than embedded, calculate cost on a wire center level instead of a statewide average, and would provide for sufficient funding in high-cost areas. Collecting funds on a telephone number basis is efficient and does not violate a state's jurisdiction.

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